

13 August 2020

Submission on:
[Further consultation] Fibre Input
Methodologies Determination 2020



**Northpower Fibre Limited and Northpower
LFC2 Limited**

Public version

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Thank you for the opportunity to provide feedback on the *[Further consultation] Fibre Input Methodologies Determination 2020 (Consultation)*.

Northpower Fibre Limited and Northpower LFC2 Limited (together, **Northpower Fibre**) recognise that much of the Consultation applies to Chorus rather than Northpower Fibre but we do have some comments to make on the points that are relevant and most important to Northpower Fibre.

1. General comments and points of agreement

1.1 In general, Northpower Fibre supports the majority of the points in the Consultation. In particular, we support:

- the Commission's revised approach to the level of granularity required in respect of the assets in the RAB pre and post implementation (Consultation paragraphs 3.115 and 3.123), and
- the Commission's decision to allow flexibility to determine the 12 month period of a "disclosure year" in the relevant ID determination as described in Change 2 of Table A3 of the Consultation.

2. Tax adjusted market risk premium

2.1 We note the Commission has asked for stakeholder views on whether or not the tax-adjusted market risk premium (TAMRP) should be aligned across Part 4 and Part 6 (Consultation paragraph 3.271). Northpower Fibre supports the view that the TAMRP should be aligned across Part 4 and Part 6 to provide certainty across all regulated sectors at an economy-wide level.

3. Shared costs

3.1 We have considered the introduction of the test for the allocation of shared costs for asset values or operating expenses that would have a material effect on the total costs allocated to FFLAS (Consultation paragraph 3.169). We understand how this test might apply to a business like Chorus with a greater portion of regulated and non-regulated assets and costs. For a business like Northpower Fibre, the application is less clear.

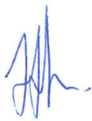
3.2 Whilst at present Northpower Fibre has most of its regulated costs allocated through related party transactions, if its business structure changes (which will be the case if it completes an acquisition of Crown Infrastructure Partners Limited's shares in Northpower Fibre Limited) it may rely more on allocating shared costs between the regulated and non-regulated business. Given the scale of

Northpower Fibre's business, the test proposed seems disproportionate. The shared services utilised by Northpower Fibre lead to efficient outcomes for users. However, the proposal of the materiality test adds compliance cost which is contrary to the efficiency objectives. It is not appropriate for Northpower Fibre to have to go through the same process as Chorus when its shared costs are a fraction of Chorus's.

- 3.3 Northpower Fibre submits that the materiality considerations should also apply to the materiality of the shared costs in absolute terms, not just as a proportion of total costs.

We thank you again for the opportunity to provide feedback.

Please contact Darren Mason (darren.mason@northpowerfibre.co.nz) if you would like to discuss any aspect of this submission further.



Darren Mason

Chief Executive

Northpower Fibre Limited